

**OFFICE OF AUDITOR OF STATE**  
STATE OF IOWA

Mary Mosiman, CPA  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

NEWS RELEASE

FOR RELEASE

November 20, 2013

Contact: Andy Nielsen  
515/281-5834

Auditor of State Mary Mosiman today released an audit report on the Hiawatha Water Department, Hiawatha, Iowa.

The Water Department's receipts totaled \$2,300,864 for the year ended June 30, 2013, a 13% increase over the prior year. The receipts included \$1,084,000 in charges for service, \$910,052 in sewer and storm water fees collected for the City, \$157,442 from the sale of a well, \$128,900 in miscellaneous receipts and \$3,147 in interest on investments.

Disbursements for the year totaled \$1,931,105, a less than 1% increase over the prior year, and included \$988,070 for operations and improvements, \$31,004 for debt service and \$912,031 for sewer and storm water fees remitted to the City of Hiawatha.

The increase in receipts is due to the start of the utility maintenance program, sale of a well and the receipt of insurance proceeds in fiscal year 2013.

A copy of the audit report is available for review in the Water Department's office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/1323-0545-B00F.pdf>.

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**HIAWATHA WATER DEPARTMENT**  
**INDEPENDENT AUDITOR'S REPORTS**  
**FINANCIAL STATEMENT**  
**SUPPLEMENTARY AND OTHER INFORMATION**  
**SCHEDULE OF FINDINGS**

**JUNE 30, 2013**

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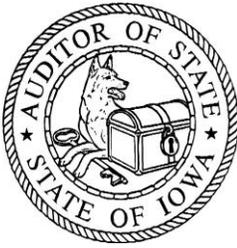
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## Hiawatha Water Department

### Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Charles Fridal	Chairperson	Jan 2015
Patrick White	Vice Chairperson	Jan 2017
Gary Casady	Trustee	Jan 2014
Troy Anderson	Trustee	Jan 2016
Beverly Daws	Trustee	Jan 2018
Carl Ransford	Superintendent	Indefinite
Debra Larson	Billing Clerk	Indefinite
Sara Ries	Assistant Billing Clerk	Indefinite

**Hiawatha Water Department**



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Independent Auditor's Report

To the Board of Trustees of the  
Hiawatha Water Department:

Report on the Financial Statement

We have audited the accompanying financial statement of the Hiawatha Water Department as of and for the year ended June 30, 2013, and the related Notes to Financial Statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of the financial statement in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Water Department's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Water Department's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statement referred to above presents fairly, in all material respects, the cash basis financial position of the Hiawatha Water Department as of June 30, 2013, and the changes in its cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

As described in Note 1, the financial statement was prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

*Supplementary and Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statement. The supplementary information included in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the basic financial statement. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. Such information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the financial statement taken as a whole.

The other information, Management's Discussion and Analysis on pages 7 through 9, has not been subjected to the auditing procedures applied in the audit of the basic financial statement and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated November 7, 2013 on our consideration of the Hiawatha Water Department's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Hiawatha Water Department's internal control over financial reporting and compliance.

  
MARY MOSIMAN, CPA  
Auditor of State

  
WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

November 7, 2013

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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The Hiawatha Water Department provides this Management's Discussion and Analysis of its financial statement. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2013. We encourage readers to consider this information in conjunction with the Water Department's financial statement, which follows.

### **2013 FINANCIAL HIGHLIGHTS**

- The Water Department's total receipts increased 13%, or approximately \$264,000, from fiscal year 2012 to fiscal year 2013. Water rates increased 2% for the current year and interest on investments decreased slightly from a year ago. The Water Department sold a well during fiscal year 2013 for \$157,442. The Water Department also received \$145,170 from the City in fiscal year 2012 which it did not receive in fiscal year 2013.
- The Water Department's total disbursements increased less than 1%, or approximately \$16,000, from fiscal year 2012 to fiscal year 2013 due to completing major capital project activities in fiscal year 2012. The Water Department also remitted approximately \$54,000 of additional sewer and storm water fees to the City as a result of higher collections.
- The Water Department's total cash balance increased 48%, or approximately \$295,000, from June 30, 2012 to June 30, 2013.

### **USING THIS ANNUAL REPORT**

The annual report consists of a financial statement and other information, as follows:

Management's Discussion and Analysis introduces the financial statement and provides an analytical overview of the Water Department's financial activities.

The Statement of Cash Receipts, Disbursements and Changes in Cash Balance presents information on the Hiawatha Water Department's receipts and disbursements, non-operating receipts and disbursements and whether the Water Department's cash basis financial position has improved or deteriorated as a result of the year's activities.

The Notes to Financial Statement provide additional information essential to a full understanding of the data provided in the financial statement.

Other Information further explains and supports the financial statement with a comparison of the Water Department's budget for the year.

Supplementary Information provides detailed information about the individual Enterprise Fund Accounts and the Water Department's indebtedness.

### **BASIS OF ACCOUNTING**

The Water Department maintains its financial records on the basis of cash receipts and disbursements and the financial statement of the Water Department is prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statement does not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

## FINANCIAL ANALYSIS OF THE HIAWATHA WATER DEPARTMENT

### *Statement of Cash Receipts, Disbursements and Changes in Cash Balance*

The purpose of the statement is to present the receipts received by the Water Department and the disbursements paid by the Water Department, both operating and non-operating. The statement also presents a fiscal snapshot of the Water Department's cash balance at year end. Over time, readers of the financial statement are able to determine the Water Department's financial position by analyzing the increase and decrease in cash balance.

Receipts include metered and bulk water sales, fees for upkeep and/or upgrade of individual service lines, water turn on/off fees, rent for space on the water tower, taps and miscellaneous fees. A summary of cash receipts, disbursements and changes in the cash balance for the years ended June 30, 2013 and June 30, 2012 is presented below:

	Changes in Cash Balance	
	Year ended June 30,	
	2013	2012
<b>Receipts:</b>		
Interest on investments	\$ 3,147	4,301
Charges for service	1,084,000	919,055
Sewer and storm water fees collected for the City	910,052	854,022
Sale of well	157,442	-
Reimbursements from the City	-	145,170
Miscellaneous	146,223	114,638
Total receipts	<u>2,300,864</u>	<u>2,037,186</u>
<b>Disbursements:</b>		
Plant operation and maintenance	181,554	182,772
Distribution operation and maintenance	165,151	137,505
Administration	455,277	414,755
Debt service	31,004	30,982
Capital outlay	186,088	291,361
Sewer and storm water fees remitted to the City	912,031	857,702
Total disbursements	<u>1,931,105</u>	<u>1,915,077</u>
Change in cash balance before transfers	369,759	122,109
Transfers to the City of Hiawatha	<u>(74,997)</u>	<u>(76,215)</u>
Change in cash balance	294,762	45,894
Cash balance beginning of year	<u>610,603</u>	<u>564,709</u>
Cash balance end of year	<u>\$ 905,365</u>	<u>610,603</u>

The Water Department's unrestricted cash balance is available for use in the routine operations of the plant, distribution and administrative areas of the Water Department and for the capital improvements to the plant and distribution areas. State and federal laws and regulations require the Water Department to perform specific maintenance and monitoring functions in the collection and treatment of water sources before final distribution.

## **BUDGETARY HIGHLIGHTS**

The Water Department amended its budget one time during the fiscal year ended June 30, 2013. The amendment was approved on April 16, 2013 for Well #7 repairs, pipe for Well #10 and credit card charges for customers to pay via credit card. The Water Department had sufficient cash balances to absorb these additional costs.

The Water Department's charges for service and miscellaneous receipts were \$149,960 and \$16,555, respectively, more than budgeted. The increase in charges for service receipts is due to higher than projected water fee collections. The increase in miscellaneous receipts is due to higher than projected sales tax collections due to increased water fee collections.

The Water Department's receipts for use of money and property were \$1,853 less than budgeted as a result of invested funds not generating the projected earnings.

The Water Department's disbursements were \$162,019 less than budgeted for the year.

## **DEBT ADMINISTRATION**

During fiscal year 2011, the Water Department issued a \$250,000 water revenue capital loan note, of which \$187,000 is outstanding at June 30, 2013. The Water Department paid \$9,004 of interest on this note in fiscal year 2013.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

The Water Department raised water rate charges as of July 2012 to improve its financial position for the next two fiscal years and to be able to continue providing good quality water to its customers.

Current economic conditions beyond the Water Department's Trustees' control play a significant role in the daily operations of the water plant and distribution services. These conditions include, but are not limited to:

- The need to constantly maintain facilities, wells, vehicles and machinery.
- The need to comply with federal and state regulations for the production of water and well-head protection.
- The need to maintain up-to-date technology at a reasonable cost.
- The fluctuation of the cost of the chemicals and energy used to produce quality water.

## **CONTACTING THE WATER DEPARTMENT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the citizens, customers and creditors with a general overview of the Hiawatha Water Department's finances and to show the Water Department's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Hiawatha Water Department, 101 Emmons Street, PO Box 485, Hiawatha, Iowa 52233.

**Basic Financial Statement**

Hiawatha Water Department  
Statement of Cash Receipts, Disbursements and  
Changes in Cash Balance

As of and for the year ended June 30, 2013

Operating receipts:	
Charges for service	\$ 1,084,000
Miscellaneous	128,900
Total operating receipts	<u>1,212,900</u>
Operating disbursements:	
Business type activities:	
Plant operation and maintenance	181,554
Distribution operation and maintenance	165,151
Administration	455,277
Total operating disbursements	<u>801,982</u>
Excess of operating receipts over operating disbursements	<u>410,918</u>
Non-operating receipts (disbursements):	
Interest on investments	3,147
Sewer and storm water fees collected for the City	910,052
Sale of well	157,442
Insurance proceeds	17,323
Debt service	(31,004)
Capital outlay	(186,088)
Sewer and storm water fees remitted to the City	(912,031)
Net non-operating receipts (disbursements)	<u>(41,159)</u>
Excess of receipts over disbursements	369,759
Transfers to the City of Hiawatha	<u>(74,997)</u>
Change in cash balance	294,762
Cash balance beginning of year	<u>610,603</u>
Cash balance end of year	<u><u>\$ 905,365</u></u>
<b>Cash Basis Fund Balance</b>	
Restricted for:	
Sewer and storm water fees	\$ 82,742
Debt service	7,757
Capital improvements	202,224
Customer water deposits	65,315
Total restricted cash basis fund balance	<u>358,038</u>
Unrestricted	<u>547,327</u>
Total cash basis fund balance	<u><u>\$ 905,365</u></u>

See notes to financial statement.

Hiawatha Water Department

Notes to Financial Statement

June 30, 2013

**(1) Summary of Significant Accounting Policies**

A. Reporting Entity

The Hiawatha Water Department is a component unit of the City of Hiawatha, Iowa, as determined by criteria specified by the Governmental Accounting Standards Board. The Water Department is governed by a five-member Board of Trustees appointed by the Mayor and approved by the City Council, which exercises oversight responsibility under this criteria.

B. Basis of Presentation

The accounts of the Water Department are organized as an Enterprise Fund. Enterprise Funds are utilized to finance and account for the acquisition, operation and maintenance of governmental facilities and services supported by user charges.

Enterprise Funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with an Enterprise Fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

C. Basis of Accounting

The Water Department maintains its financial records on the basis of cash receipts and disbursements and the financial statement of the Water Department is prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statement does not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

D. Restricted Fund Balance

Funds set aside for sewer and storm water fees, capital improvements and customer water deposits are classified as restricted.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information.

**(2) Cash and Pooled Investments**

The Water Department's deposits in banks at June 30, 2013 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Water Department is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Water Department had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$375,556 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The Water Department's investment in the Iowa Public Agency Investment Trust is unrated for credit risk purposes.

**(3) Note Payable**

Annual debt service requirements to maturity for the water revenue capital loan note is as follows:

Year Ending June 30,	Interest Rates	Principal	Interest	Total
2014	4.34%	\$ 23,000	8,116	31,116
2015	4.34	24,000	7,118	31,118
2016	4.34	25,000	6,076	31,076
2017	4.34	27,000	4,991	31,991
2018	4.34	28,000	3,819	31,819
2019-2020	4.34	60,000	3,949	63,949
Total		\$ 187,000	34,069	221,069

The Water Department has pledged future water customer receipts, net of specified operating disbursements, to repay a \$250,000 water revenue capital loan note issued September 15, 2010. Proceeds from the note provided financing for the construction, reconstruction, extension, improvement and repair all or part of the water utility, including construction of water mains. The note is payable solely from water customer net receipts and is payable through 2020. Annual principal and interest payments on the note are expected to require less than 8% of net receipts. The total principal and interest remaining to be paid on the note is \$221,069. For the current year, principal and interest paid on the note was \$31,004 and total customer net receipts were \$410,918.

The resolution providing for the issuance of the water revenue capital loan note includes the following provisions.

- (a) The Water Department shall establish, impose, adjust and provide for the collection of rates to be charged to customers of the Utility to produce gross revenues at least sufficient to pay the expenses of operation and maintenance of the Utility and to leave a balance of net operating revenues at least sufficient to pay the principal and interest on the note as they come due.

- (b) The note will only be redeemed from the future earnings of the water system and the note holder holds a lien on the future earnings of the funds.
- (c) Sufficient monthly transfers shall be made to a separate water revenue note sinking account within the Enterprise Fund for the purpose of making the note principal and interest payments when due.
- (d) All funds remaining after payment of all maintenance and operating expenses and the transfers to the restricted account noted above can be used to retire any subordinate obligations and then can be used for any lawful purpose.
- (e) The rents, rates and other charges will be at least sufficient to meet the operation and maintenance expenses of the water system and to produce and maintain net receipts at a level not less than 110% of the amount of principal and interest on the revenue note.

During fiscal year 2013, monthly transfers of \$3,345 for July 2012 through December 2012 and \$2,589 for January 2013 through June 2013 were made to a separate water revenue note sinking (water main replacement) account.

**(4) Pension and Retirement Benefits**

The Water Department contributes to the Iowa Public Employees' Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 5.78% of their annual salary and the Water Department is required to contribute 8.67% of annual covered salary. Contribution requirements are established by state statute. The Water Department's contributions to IPERS for the years ended June 30, 2013, 2012 and 2011 were \$26,523, \$23,917 and \$19,487, respectively, equal to the required contributions for each year.

**(5) Other Postemployment Benefits (OPEB)**

Plan Description - The City of Hiawatha operates a single-employer health benefit plan in which the Water Department participates. The plan provides medical/prescription drug benefits for employees, retirees and their spouses. The Water Department has 6 active and 1 retired member in the plan. Retired participants must be age 65 or older and be a full-time employee of the City of Hiawatha for 15 continuous years or, if under age 65, be a full-time employee of the City of Hiawatha for 25 continuous years at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. For retirees under age 65, the City pays the same premium for the medical/prescription drug benefits as active employees. For retirees age 65 or older, the City pays a reduced premium for supplemental Medicare coverage and, as an added benefit, the single rate premium for a qualifying spouse for up to 3 years.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City of Hiawatha. The City currently finances the benefit plan on a month-to-month basis. The most recent active member monthly premiums for the Water Department and plan members are \$464 for single coverage, \$878 for employee/children, \$950 for employee/spouse and \$1,423 for family coverage. The

same monthly premiums apply to retirees under the age of 65. For retirees age 65 or older, the monthly premiums are \$203 for supplemental Medicare coverage. For the year ended June 30, 2013, the Water Department contributed \$79,591 and plan members eligible for benefits contributed \$1,680 to the plan.

**(6) Compensated Absences**

Water Department employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the Water Department until used or paid. The Water Department's approximate liability for earned vacation and sick leave payable to employees at June 30, 2013 is as follows:

Type of Benefit	Amount
Vacation	\$ 43,000
Sick leave	13,000
Total	<u>\$ 56,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2013.

**(7) Risk Management**

The Water Department is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(8) Transfers**

The detail of transfers to the City of Hiawatha for the year ended June 30, 2013 is as follows:

Transfer to	Transfer from	Amount
City of Hiawatha:		
Debt Service	Enterprise:	
	Water Operating	\$ 23,433
Capital Projects	Water Operating	34,964
Enterprise:		
Sewer	Water Operating	<u>16,600</u>
Total		<u>\$ 74,997</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

**(9) Construction Contracts/Commitments**

During the year ended June 30, 2005, the Water Department entered into a project in conjunction with the City of Hiawatha to build a public works building. The total amount of the project is \$1,636,260 and the portion of costs to be paid by the Water Department is \$409,065. As of June 30, 2013, the total amount paid by the Water Department was \$187,567. Annual payments of \$32,214 are expected to be made for the next 7 years.

**Hiawatha Water Department**

## **Other Information**

Hiawatha Water Department  
 Budgetary Comparison Schedule  
 of Receipts, Disbursements and Changes in Balances -  
 Budget and Actual (Cash Basis)  
 Other Information

Year ended June 30, 2013

	Actual	Less Amounts not Required to be Budgeted
Receipts:		
Use of money and property	\$ 3,147	-
Intergovernmental	-	-
Charges for service	1,994,052	910,052
Miscellaneous	303,665	4
Total receipts	2,300,864	910,056
Disbursements:		
Business type activities	1,931,105	912,031
Excess (deficiency) of receipts over (under) disbursements	369,759	(1,975)
Other financing uses, net	(74,997)	-
Change in cash balance	294,762	(1,975)
Cash balance beginning of year	610,603	84,717
Cash balance end of year	\$ 905,365	82,742

See accompanying independent auditor's report.

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Net	Budgeted Amounts		Final to Net Variance
	Original	Final	
3,147	5,000	5,000	(1,853)
-	106,234	106,234	(106,234)
1,084,000	934,040	934,040	149,960
303,661	94,783	287,106	16,555
1,390,808	1,140,057	1,332,380	58,428
1,019,074	1,065,093	1,181,093	162,019
371,734	74,964	151,287	220,447
(74,997)	(74,964)	(74,964)	(33)
296,737	-	76,323	220,414
525,886	57,980	57,980	467,906
822,623	57,980	134,303	688,320

Hiawatha Water Department

Notes to Other Information – Budgetary Reporting

June 30, 2013

The Hiawatha Water Department prepares a budget on the cash basis of accounting for all funds except sewer and storm water fees collected for and remitted to the City and submits it to the City Council. In accordance with the Code of Iowa, the City Council annually adopts a budget, which includes the Water Department, on the cash basis following required public notice and hearing. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon classes of disbursements known as functions, not by fund. The Water Department's disbursements are budgeted in the business type activities function. During the year, one budget amendment increased budgeted disbursements by \$116,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2013, disbursements did not exceed the amount budgeted.

**Supplementary Information**

Hiawatha Water Department  
Combining Schedule of Cash Receipts, Disbursements  
and Changes in Cash Balance

Enterprise Fund Accounts

As of and for the year ended June 30, 2013

	Water Operating	Meter Deposit
Operating receipts:		
Charges for service:		
Sale of water	\$ 970,836	-
Maintenance program	70,779	-
Penalties	10,928	-
Tower contract	18,098	-
Midway	4,843	-
Meter charge	8,516	-
Total charges for service	<u>1,084,000</u>	<u>-</u>
Miscellaneous:		
Sales tax	81,656	-
Customer deposits	-	20,682
Miscellaneous	26,558	-
Total miscellaneous	<u>108,214</u>	<u>20,682</u>
Total operating receipts	<u>1,192,214</u>	<u>20,682</u>
Operating disbursements:		
Business type activities:		
Plant operation and maintenance:		
Personal services	171,674	-
Contractual services	9,880	-
Total plant operation and maintenance	<u>181,554</u>	<u>-</u>
Distribution operation and maintenance:		
Contractual services	94,243	-
Commodities	70,908	-
Total distribution operation and maintenance	<u>165,151</u>	<u>-</u>
Administration:		
Personal services	278,365	-
Contractual services	125,797	6,326
Commodities	44,789	-
Total administration	<u>448,951</u>	<u>6,326</u>
Total operating disbursements	<u>795,656</u>	<u>6,326</u>
Excess of operating receipts over operating disbursements	<u>396,558</u>	<u>14,356</u>

City Waterworks	Water Main Replacement	Capital Improvements	Total
-	-	-	970,836
-	-	-	70,779
-	-	-	10,928
-	-	-	18,098
-	-	-	4,843
-	-	-	8,516
-	-	-	1,084,000
4	-	-	81,660
-	-	-	20,682
-	-	-	26,558
4	-	-	128,900
4	-	-	1,212,900
-	-	-	171,674
-	-	-	9,880
-	-	-	181,554
-	-	-	94,243
-	-	-	70,908
-	-	-	165,151
-	-	-	278,365
-	-	-	132,123
-	-	-	44,789
-	-	-	455,277
-	-	-	801,982
4	-	-	410,918

Hiawatha Water Department  
Combining Schedule of Cash Receipts, Disbursements  
and Changes in Cash Balance

Enterprise Fund Accounts

As of and for the year ended June 30, 2013

	Water Operating	Meter Deposit
Non-operating receipts (disbursements):		
Interest on investments	3,139	-
Sewer and storm water fees collected for the City	-	-
Sale of well	157,442	-
Insurance proceeds	17,323	-
Debt service	-	-
Capital outlay	(79,855)	-
Sewer and storm water fees remitted to the City	-	-
Total non-operating receipts (disbursements)	98,049	-
Excess (deficiency) of receipts over (under) disbursements	494,607	14,356
Transfers in (out):		
Enterprise:		
Water Operating	-	(30,000)
Meter Deposit	30,000	-
Water Main Replacement	(35,606)	-
Capital Improvements	(306,234)	-
To the City of Hiawatha:		
Debt Service	(23,433)	-
Capital Projects	(34,964)	-
Enterprise:		
Sewer	(16,600)	-
Total transfers in (out)	(386,837)	(30,000)
Change in cash balance	107,770	(15,644)
Cash balance beginning of year	439,557	80,959
Cash balance end of year	\$ 547,327	65,315

See accompanying independent auditor's report.

City Waterworks	Water Main Replacement	Capital Improvements	Total
-	-	8	3,147
910,052	-	-	910,052
-	-	-	157,442
-	-	-	17,323
-	(31,004)	-	(31,004)
-	-	(106,233)	(186,088)
(912,031)	-	-	(912,031)
(1,979)	-	(106,225)	(41,159)
(1,975)	-	(106,225)	369,759
-	35,606	306,234	311,840
-	-	-	30,000
-	-	-	(35,606)
-	-	-	(306,234)
-	-	-	(23,433)
-	-	-	(34,964)
-	-	-	(16,600)
-	35,606	306,234	(74,997)
(1,975)	4,602	200,009	294,762
84,717	3,155	2,215	610,603
82,742	7,757	202,224	905,365

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Hiawatha Water Department  
Schedule of Indebtedness  
Year ended June 30, 2013

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Obligation	Date of Issue	Interest Rates	Amount Originally Issued
Water revenue: Capital loan note series 2010	Sep 15, 2010	4.34%	\$ 250,000

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See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
209,000	-	22,000	187,000	9,004

**Hiawatha Water Department**



# OFFICE OF AUDITOR OF STATE

STATE OF IOWA

State Capitol Building  
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Mary Mosiman, CPA  
Auditor of State

Independent Auditor's Report on Internal Control  
over Financial Reporting and on Compliance and Other Matters  
Based on an Audit of a Financial Statement Performed in Accordance with  
Government Auditing Standards

To the Board of Trustees of the  
Hiawatha Water Department:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States, the financial statement of the Hiawatha Water Department as of and for the year ended June 30, 2013, and the related Notes to Financial Statement, and have issued our report thereon dated November 7, 2013. Our report expressed an unmodified opinion on the financial statement which was prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Hiawatha Water Department's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Hiawatha Water Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hiawatha Water Department's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified a deficiency in internal control we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Hiawatha Water Department's financial statement will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings as item (A) to be a material weakness.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hiawatha Water Department's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the Department's operations for the year ended June 30, 2013 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statement of the Department. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

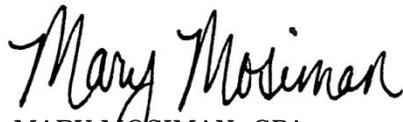
#### Hiawatha Water Department's Responses to the Finding

The Hiawatha Water Department's response to the finding identified in our audit is described in the accompanying Schedule of Findings. The Hiawatha Water Department's response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

#### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the Water Department's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Water Department's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Hiawatha Water Department during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

  
MARY MOSIMAN, CPA  
Auditor of State

  
WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

November 7, 2013

Hiawatha Water Department

Schedule of Findings

Year ended June 30, 2013

**Finding Related to the Financial Statement:**

**INTERNAL CONTROL DEFICIENCY:**

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. When duties are properly segregated, the activities of one employee act as a check on those of another. One individual has control over cash receipts, handling cash and recording cash.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the Water Department should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available personnel, including Water Department officials.

Response – We will continue to segregate duties as much as possible.

Conclusion – Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

Hiawatha Water Department

Schedule of Findings

Year ended June 30, 2013

**Other Findings Related to Required Statutory Reporting:**

- (1) Certified Budget – The budget certified by the City of Hiawatha includes an amount for the Hiawatha Water Department. Disbursements during the year ended June 30, 2013 did not exceed the amount budgeted.
- (2) Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.
- (3) Travel Expense – No disbursements of Water Department money for travel expenses of spouses of Water Department officials or employees were noted.
- (4) Business Transactions – No business transactions between the Water Department and Water Department officials or employees were noted.
- (5) Bond Coverage – Surety bond coverage of Water Department officials and employees is carried by the City of Hiawatha in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- (6) Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.
- (7) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Water Department’s investment policy were noted.
- (8) Revenue Note – No instances of non-compliance with the revenue note requirements for the year ended June 30, 2013 were noted.

Hiawatha Water Department

Staff

This audit was performed by:

Pamela J. Bormann, CPA, Manager  
Eric L. Rath, Staff Auditor  
Ramona E. Daly, Assistant Auditor

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large initial 'A' and 'N'.

Andrew E. Nielsen, CPA  
Deputy Auditor of State